

AT A BUDGET RETREAT OF THE CITY COUNCIL OF THE CITY OF HAMPTON, VIRGINIA, HELD IN THE LAWRENCE CONFERENCE ROOM, EIGHTH FLOOR, CITY HALL, 22 LINCOLN STREET, ON TUESDAY, MARCH 15, 2005, AT 12:00 NOON.

The meeting was called to order by the Mayor, and upon a roll call, the following answered as present: Randall A. Gilliland, Angela Lee Leary, Charles N. Sapp, Joseph H. Spencer, II, Turner M. Spencer, Rhet Tignor, and Ross A. Kearney, II, Mayor.

Interim City Manager Jesse T. Wallace and City Attorney A. Paul Burton were also present.

Also present were City Treasurer Molly Joseph Ward, Commissioner of Revenue Ross Mugler, Director of Finance Karl Daughtrey, Director of Budget and Management Analysis Chris Snead, Assistant to the City Manager Brian DeProfio, and Assistant City Managers James A. Peterson and Mary B. Bunting.

Mayor Kearney welcomed the new Clerk of Council, Katherine K. Glass, and wished Mrs. Ward a Happy Birthday.

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FY06 Budget Retreat

The Interim City Manager stated that the focus of this retreat is to discuss the Personal Property Tax Relief Act (PPTRA), preliminary revenue projections, Real Estate Tax Relief for the Elderly and Disabled, the Economic Development Fund, the Crossroads/Convention Center Fund, and a priorities worksheet.

PPTRA: Mr. Mugler advised Council that the City had approximately \$27 million in personal property tax assessments in 2004, with approximately \$13.4 million paid by the Commonwealth due to the PPTRA; and he explained that the Commonwealth currently pays 100% of the taxes on vehicles assessed for \$1,000 or less, 70% for vehicles assessed between \$1,000 and \$20,000, and the taxpayer pays the remaining 30% plus 100% of the tax assessment for any amount over \$20,000.

Mr. Mugler stated that for the 2005 tax year the Commonwealth will continue to pay 70% of the tax for vehicles assessed between \$1,000 and \$20,000 but they will not be paying the tax on vehicles assessed for less than \$1,000, noting that the Commonwealth has set a cap of \$950 million maximum on its payments. Mrs. Ward stated that Council needs to decide if the City will absorb the tax for vehicles assessed for \$1,000 or less since these taxpayers have not had to pay this tax for the past two

years. Mrs. Ward explained that the Commonwealth contribution for vehicles assessed between \$1,000 to \$20,000 will depend on whether or not the City absorbs the tax on those under \$1,000, and she stated that this decision can be made annually. In response to questions from Council, Mrs. Ward explained that in the future the Commonwealth will not pay the 70% tax until the taxpayer has paid the 30% tax; however, she stated that beginning in 2006, if a taxpayer has not paid the 30%, the Commonwealth will not pay its 70% and the taxpayer then becomes liable for the entire tax. Council discussed the ramifications of these changes and the need to be sure taxpayers are aware of them.

Preliminary Revenue Projections: Mr. Daughtrey reviewed the following figures with Council:

- Projected revenue is \$244.5 million, which is a 5% increase (\$12.4 million), which includes growth expected from new business activities
- Estimated growth of 12.96% in real estate taxes, including 1.2% in new construction
- Estimated growth of 3.4% in personal property taxes
- Estimated growth of 2% in other taxes (sales, meals, lodging, and tobacco)
- Estimated growth of 9% in fees and service charges
- Estimated growth of 11% from use of money and property
- Estimated growth of 1% in state/Federal revenue

In response to questions raised by Council, Mr. Daughtrey explained that a total of \$92.5 million is expected based on the increase in real estate assessments assuming the same tax rate of \$1.25/\$100, that a tax rate of \$1.16/\$100 would have an estimated net increased in real estate taxes of 5% resulting in a reduction of \$6.5 million each to the City and School budgets, and 1 cent on the real estate tax rate is approximately \$738,000.

Mayor Kearney stated that additional funding is critical for teacher salaries and emergency personnel, and Councilman Sapp expressed a need for additional police officers as well.

In response to questions from Council, Mr. Daughtrey and Mrs. Bunting stated information will be given to Council regarding income and expenses for the After-School Program, how storm water fees are used, how Incentive Funds are disbursed, and how the Healthy Family Program is doing.

Real Estate Tax Relief for the Elderly and Disabled: Mr. DeProfio reviewed the policy as amended by Council in 2003:

Combined income of owner and his/her relatives living at the residence does not exceed \$30,000. The first \$7,000 of income of each relative, other than the spouse, is not included in this total.

Full abatement for people with incomes at or under \$21,000 and partial abatement for those between \$21,000 and \$30,000.

Combined financial worth of owner and spouse, excluding the value of the house and one acre home site of land, does not exceed \$100,000.

A dwelling jointly held by an individual or husband/wife could qualify for the amended tax formula if either spouse is over 65 or is permanently or totally disabled.

Mr. DeProfio also reviewed the application process for tax relief and stated that Social Services will make home visits to homebound property owners. Mr. DeProfio stated that approximately 83% of those who qualify for tax relief get full abatement on taxes, and he noted that the program costs the City approximately \$1 million per year. If changes are anticipated for this program, Mr. DeProfio noted that the application period, which is from February to April, would need to be extended, and he stated that state law limits income to \$50,000 and net worth to \$200,000. Mr. DeProfio stated that another option is a freeze on taxes, which provides relief for someone on a fixed income. Mayor Kearney expressed concern over a freeze on taxes since this passes the tax on to other taxpayers who may not qualify for relief but are also having a hard time.

Economic Development Fund (EDF): Mr. Peterson reviewed this Fund as follows:

The EDF was created in September, 1982, effective retroactive to July 1, 1982, to fund the cost of capital investments, capital improvements, capital expenditures, and any other approved expenditures which will assist economic development and improve the physical appearance of the City.

The sources of funds include: proceeds from sale of city land, rent from city-owned property, interest on EDF funds, repayment for loans made by the City and/or the Hampton Redevelopment and Housing Authority (HRHA), transfers from the Capital Project Fund, General Fund or other appropriation by Council. Projects using EDF funds: such as the Visitor Center, Radisson Hotel Projects, Harbour Center Office Building Project, Hampton University Shopping Center, purchase of Buckroe Beach property, the Small Business Revolving Loan Fund, contributions to the Peninsula Alliance for Economic Development and Industrial Development Authority.

Current Status of EDF funds: \$3.4 million undesignated fund balance as of June 30, 2004.

From FY2000 to 2004: income of \$9.58 million from loan payments, rentals, and land sales; expenditures of \$10.4 million.

Initial intention of fund: to provide a funding source that would be available for economic opportunities without impacting city services.

Mr. Peterson explained that some of the funds have been used for continued expenditures, which was not the intent; and he recommended that the Fund revert to Council's initial intent for use on one-time project expenditures rather than annual or recurring operating expenditures, which would have an impact of \$400,000 to \$900,000 on the budget.

Crossroads/Convention Center Fund: Mr. DeProfio advised Council that this Fund was established with bonds issued with an appropriation pledge, and he explained that the payments are subject to annual appropriations with funds coming from tax revenues from this project area (meal, lodging, retail sales, entertainment, business licenses, hotel licenses, real estate, and personal property). Mr. DeProfio then reviewed projected income for the Fund totaling \$6,887,000 and expenses of \$6,635,432, leaving an anticipated balance of \$251,568 in the Fund. Mr. DeProfio explained that the purpose of the Fund is to fund the annual operating shortfall for the Convention Center until it is self-supporting.

Councilman Gilliland asked about the budget for the Convention & Visitor Bureau and how much of it supports the Convention Center, and Mr. DeProfio stated that he would get that information for Council. In response to other questions raised by Council, Mr. DeProfio stated he will get them more detailed information on revenue/expenditures for the Convention Center, proposals for the 11-acre and 19-acre parcels, and the renovation of Coliseum Mall.

Priorities Worksheet: Ms. Snead reviewed with Council the projected \$4.4 million shortfall in the preliminary budget and the funding options by changing the real estate tax rate, as well as choices on how to fund competitive salaries, merit pay, the health insurance increase, and other line items needing additional funding. Members of Council stated that it is difficult to pick and choose between some of the line items without having more information; however, they did support the need to fund competitive salaries for public safety employees and teachers and to reduce the real estate tax rate in view of the large increase in assessments. Council members also stated that it would be helpful to see a history of funding for outside agencies and how they use their funds in order to decide on requests for increases.

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Adjournment

There being no further business to come before the Council, the meeting was adjourned at 4:33 p.m.

Ross A. Kearney, II
Mayor

Katherine K. Glass
Clerk of Council

Date approved by Council: April 27, 2005